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RUEHBO/AMEMBASSY BOGOTA 3554
RUEHBR/AMEMBASSY BRASILIA 7416
RUEHBU/AMEMBASSY BUENOS AIRES 4676
RUEHCV/AMEMBASSY CARACAS 1927
RUEHPE/AMEMBASSY LIMA 1978
RUEHMD/AMEMBASSY MADRID 3164
RUEHME/AMEMBASSY MEXICO 1851
RUEHMN/AMEMBASSY MONTEVIDEO 4127
RUEHNE/AMEMBASSY NEW DELHI 0064
RUEHQT/AMEMBASSY QUITO 4565
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SIPDIS

SENSITIVE
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STATE FOR WHA/AND LPETRONI
COMMERCE FOR JANGLIN
TREASURY FOR SGOOCH

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TAGS: [EMIN](#) [EINV](#) [ECON](#) [BL](#)
SUBJECT: PROPOSED MINING PLAN CONTINUES TO "SPOOK" INVESTORS

REF: A. LA PAZ 2780
[1](#)B. LA PAZ 2904

SUMMARY

[1](#)1. (SBU) President Morales' October 15 announcement of "surprises" for the mining industry (ref A) has been tempered in the last two weeks by assurances that the GOB will respect private investment. Officials' statements, however, have done little to reassure industry executives, who worry that the GOB will expand its role in the sector and introduce significant tax and royalty increases. Whether the GOB's comprehensive mining plan, expected October 31, will "nationalize" the industry or merely redefine the role of Comibol, the state-owned mining company, remains unclear.

GOB OFFICIALS TEMPER MORALES' COMMENTS

[1](#)2. (SBU) President Morales' October 15 announcement of "surprises" for the mining industry (ref A) has been tempered in the last two weeks by assurances that the GOB will respect private investment. Vice President Alvaro Garcia Linera said publicly October 16 that the GOB would not interfere with privately owned, productive mining concessions, and Minister of the Presidency Juan Ramon de la Quintana repeated this assurance in an October 24 meeting with the Ambassador (ref B). In a similar vein, Minister of Mining Jose Dalence declared October 29 that the GOB would honor private investments "that respect (Bolivian) law" and operate within the boundaries of existing regulations.

13. (SBU) Officials' statements, however, have done little to reassure industry executives, who worry that the GOB will expand its role in the sector and introduce significant tax and royalty increases. Gerardo Garrett, vice president of the local subsidiary of U.S.-based Apex Silver, which owns the \$800 million San Cristobal silver-lead-zinc project, told Econoff October 30 that potential tax hikes remain the industry's biggest concern, noting that dramatic increases could significantly alter companies' bottom lines and make it difficult to recoup investments. According to Garrett, executives have had little choice but to wait, as GOB officials have limited discussions to a select group inside the presidential palace; even mining ministry officials are reportedly unfamiliar with proposed changes.

GOB KEEPS DETAILS CLOSE-HOLD

14. (U) Whether the GOB's comprehensive mining plan, expected October 31, will "nationalize" the industry or merely redefine the role of Comibol, the state-owned mining company, remains unclear. Minister Dalence has avoided talk of "nationalization," declaring that the GOB will not repeat the 1952 actions of the Paz Estenssoro government, which expropriated mining concessions and operations, but will concentrate instead on "refounding" Comibol, positioning it to resume its past exploration and production activities and assume a greater role in all aspects of the productive chain, from exploration and exploitation to processing and sale. Dalence has also hinted that Comibol may assume control of unproductive concessions, which could revert to state control if declared idle by GOB-sponsored auditors. Dalence has further indicated the GOB's desire to modify the existing mining code and introduce a new mining law, ostensibly to raise the complementary mining tax, which is levied on the gross sales value of metals and calculated on a sliding scale that varies by mineral.

COMMENT

15. (SBU) La Paz is rife with rumors of a possible postponement of the GOB's announcement. Many analysts speculate that Morales will decide to use his next "nationalization" to counter an eventual drop in approval ratings, which fell to a low of approximately 50 percent before the GOB's recent hydrocarbons success. If the GOB does unveil its mining plan, it may not win the applause it expects, as key groups have spoken out against the proposal. The National Federation of Cooperative Miners (FENCOMIN) has expressed opposition to any "nationalization" of the mining industry and withdrawn its support from the Morales administration, and salaried miners have expressed resentment at not being included in GOB discussions. The GOB's ability to win support from the two groups is far from certain; if they oppose the proposal, or find aspects of it unsatisfactory, they could easily take their demands to the streets) and create further problems for a government struggling to quiet growing opposition.

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